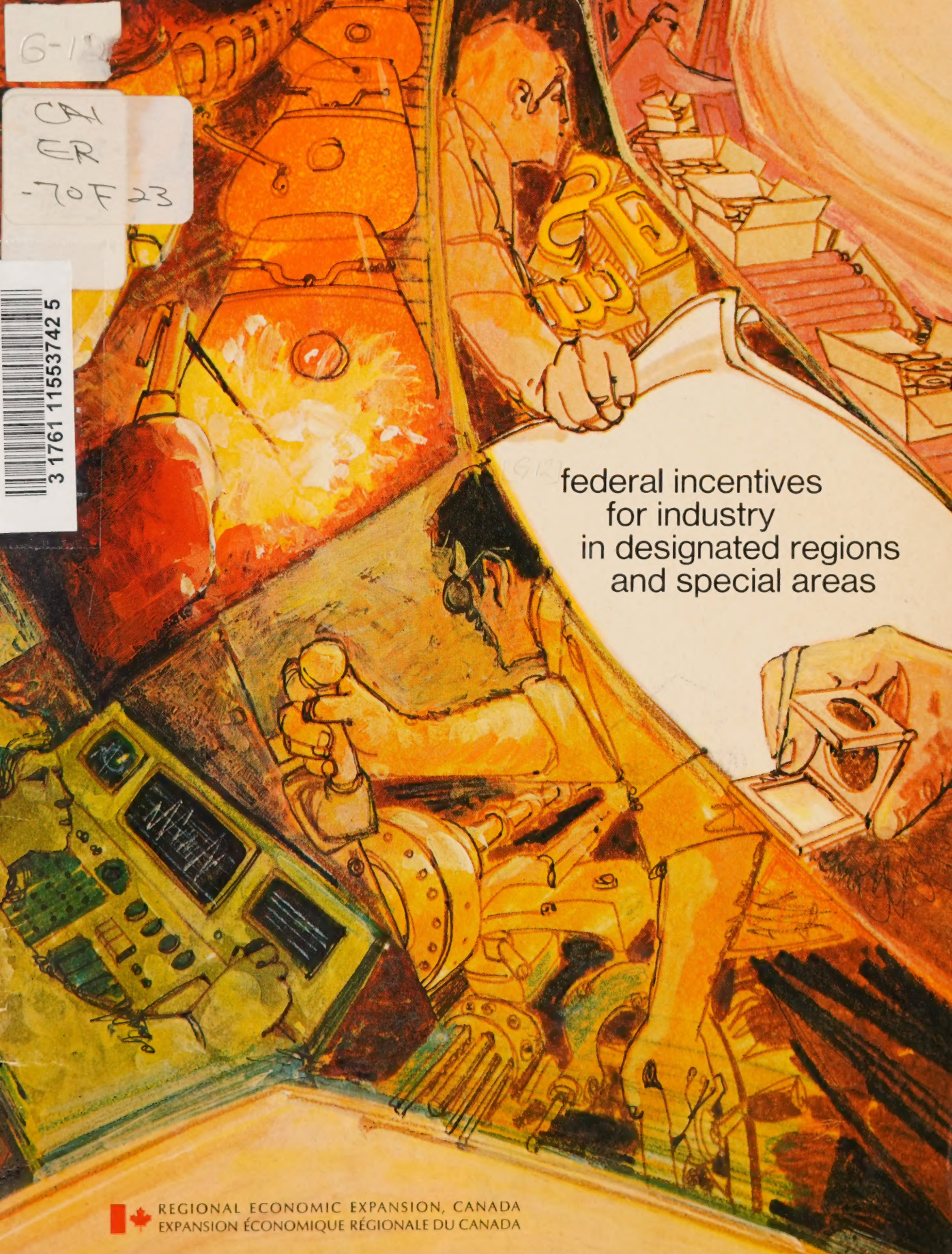



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federal incentives
for industry
in designated regions
and special areas



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Canada

Regional economic expansion dept.

[General publication 7

[G-127

**federal incentives
for industry
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introduction

Canada is a land of great resources and great opportunities. But its economy tends to operate with large regional variations. There is rapid industrial growth in many areas. But in some parts of the country, employment and earnings opportunities lag a long way behind.

The government of Canada is determined to do everything practicable to reduce such inequalities. For this purpose, the Department of Regional Economic Expansion was established in 1969.

One of the main programs of the Department is industrial incentives.

These are not continuing subsidies. They are designed to offset the initial disadvantages of an industrial investment in the areas where additional employment is most needed. They reduce the capital costs of the company, so that it will then be able to operate on an economic basis.

The incentives are substantial: up to a maximum of \$12 million for any one project.

They are provided in "designated regions" under the Regional Development Incentives Act and also in certain "special areas" under the legislation that established the Department.

This booklet describes the main features of the program. The Department welcomes enquiries for further information from companies that may be interested in the benefits of industrial incentives.

What benefits can the
Regional Development
Incentives Act provide?

The Regional Development Incentives Act provides substantial cash grants to companies which establish new manufacturing or processing facilities, or expand or modernize existing plants, in designated regions of Canada.



Where are the designated regions?

There are designated regions in all ten of Canada's provinces. There are also some additional special areas where similar incentives are available. All the present designated regions and special areas are shown on the map which accompanies this booklet.

What kinds of industry are eligible for these incentives?

Manufacturing industries and most kinds of processing industries are eligible for incentives.

Processing industries that are excluded are oil refining and the production of mineral concentrates, wood pulp and newsprint. Further processing operations that *are* eligible for incentives include: petrochemical processes; processing of mineral concentrates by roasting, leaching or smelting to produce metals; converting of wood pulp into paperboard or paper; saw-milling; processing of farm products and fish.

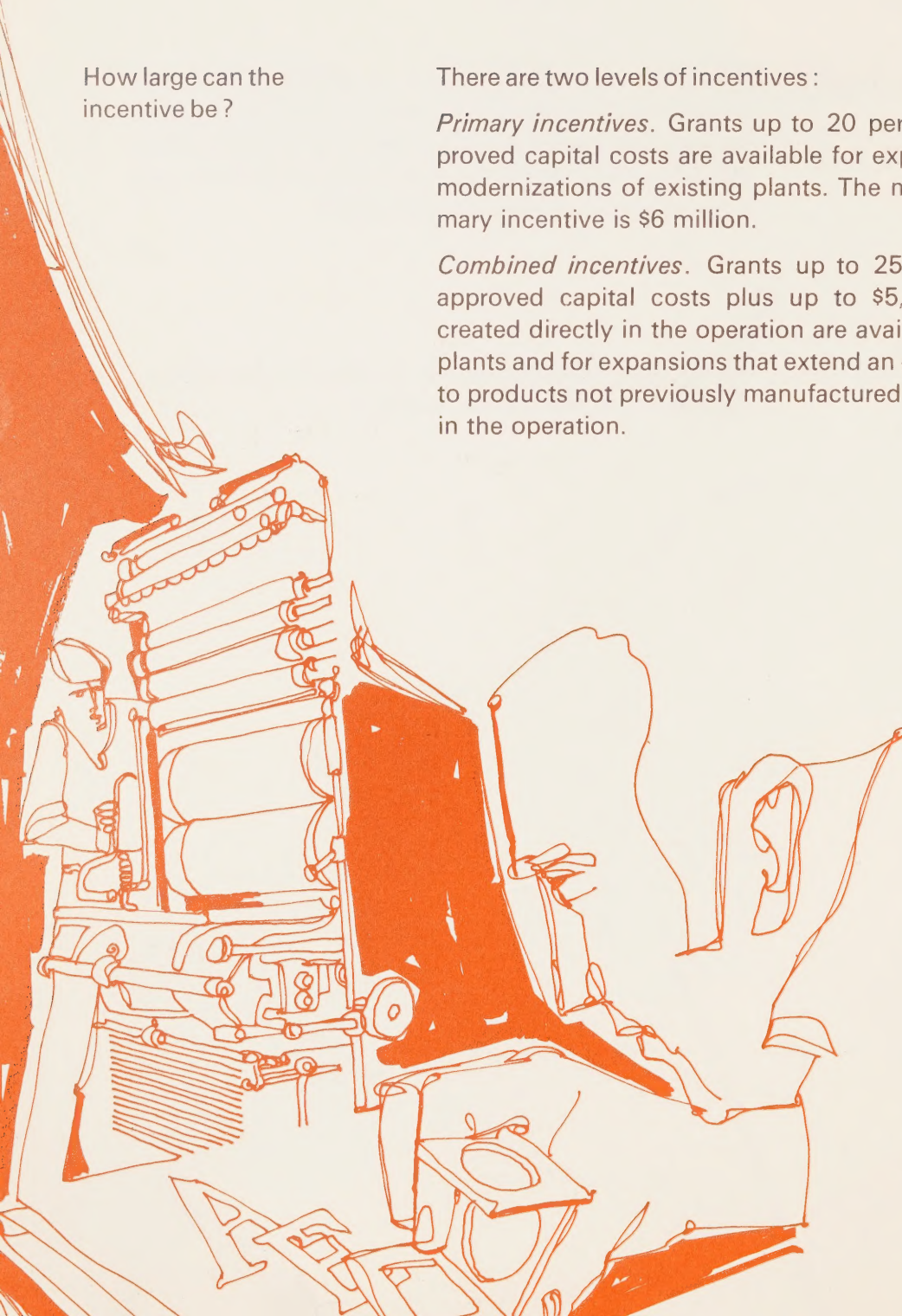
Legal definitions of eligible and ineligible industries are outlined in the Regional Development Incentives Act and Regulations.

How large can the incentive be?

There are two levels of incentives:

Primary incentives. Grants up to 20 per cent of approved capital costs are available for expansions and modernizations of existing plants. The maximum primary incentive is \$6 million.

Combined incentives. Grants up to 25 per cent of approved capital costs plus up to \$5,000 per job created directly in the operation are available for new plants and for expansions that extend an existing plant to products not previously manufactured or processed in the operation.



For a project to qualify as a new product expansion, it is necessary to show that the new products could not be manufactured or processed economically with the existing machinery and equipment of the plant.

A combined incentive cannot exceed :

- (a) \$12 million ; or ✓
 - (b) \$30,000 for each job created directly in the operation ; or ↓
 - (c) one-half of the capital to be employed in the operation,
- whichever is the least amount.

Approved capital costs include the cost to the applicant of purchasing buildings, equipment and machinery plus the direct cost of designing, acquiring, constructing, transporting and installing the assets. Land is not an eligible asset, nor is transportation equipment used off the premises. Capital payments made by the applicant to public authorities for utilities may be included, up to 20 per cent of the total approved capital costs.

Capital to be employed in the operation is the total of the approved capital costs plus the value of other fixed assets (such as land) together with an amount of working capital appropriate to the operation at intended capacity.

The number of jobs created directly in an operation is the number of employees in or based upon the facility during the second and third years of commercial production.

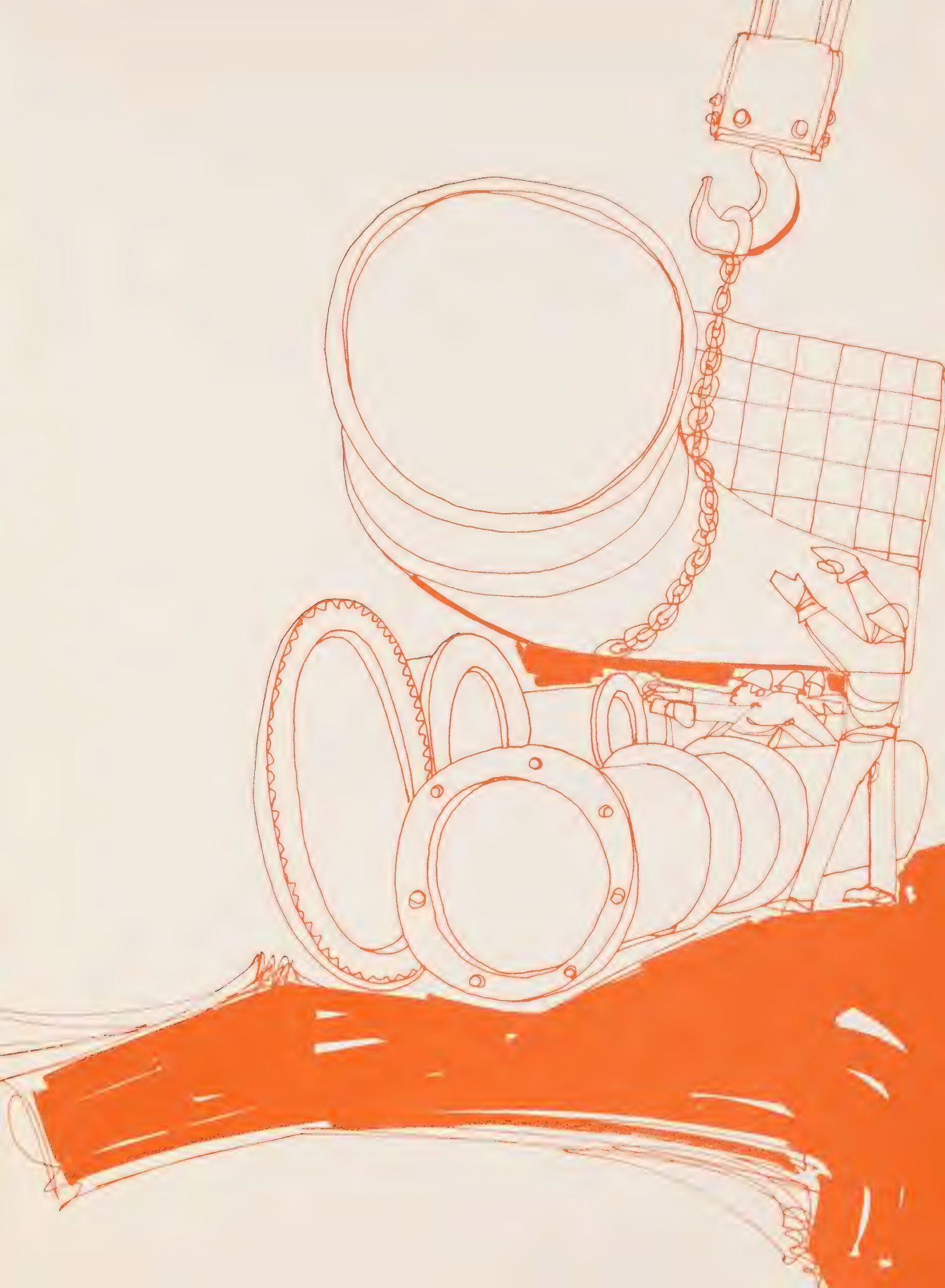
What is the minimum investment requirement ?

To qualify for a primary incentive, the approved capital costs must be at least \$30,000. For a combined incentive, the approved capital costs must be at least \$60,000.

What is the equity requirement ?

For a new plant, the applicant must have an equity of at least 20 per cent of the approved capital costs, as estimated at the time the incentive is offered. In the case of an expansion or modernisation, the applicant must have an equity of at least 20 per cent of the total of the approved capital costs and the book value of the existing facility.

Equity is the total of the share capital, earned surplus, contributed surplus, capital surplus and shareholders' loans (subordinated to all other types of debt financing) that the applicant provides for the financing of an operation.



Are there any other special conditions?

There are a number of conditions which are outlined in the Regional Development Incentives Act and Regulations. The applicant should review these in detail before submitting an application. A few of the more important ones are listed below.

- Applications for incentives must be submitted at the time the project is being planned and before any commitments for buildings, machinery or equipment are made. Projects committed in advance of making applications are disqualified from consideration.
- The applicant must undertake to employ, to the maximum extent practicable, residents of the region in which the facility is located.
- The applicant must give Canadian manufacturers a reasonable opportunity to supply, competitively, the machinery and equipment for the project.
- The new facility, expansion or modernization must be brought into commercial production not later than December 31, 1976.

How does one apply for
an incentive?

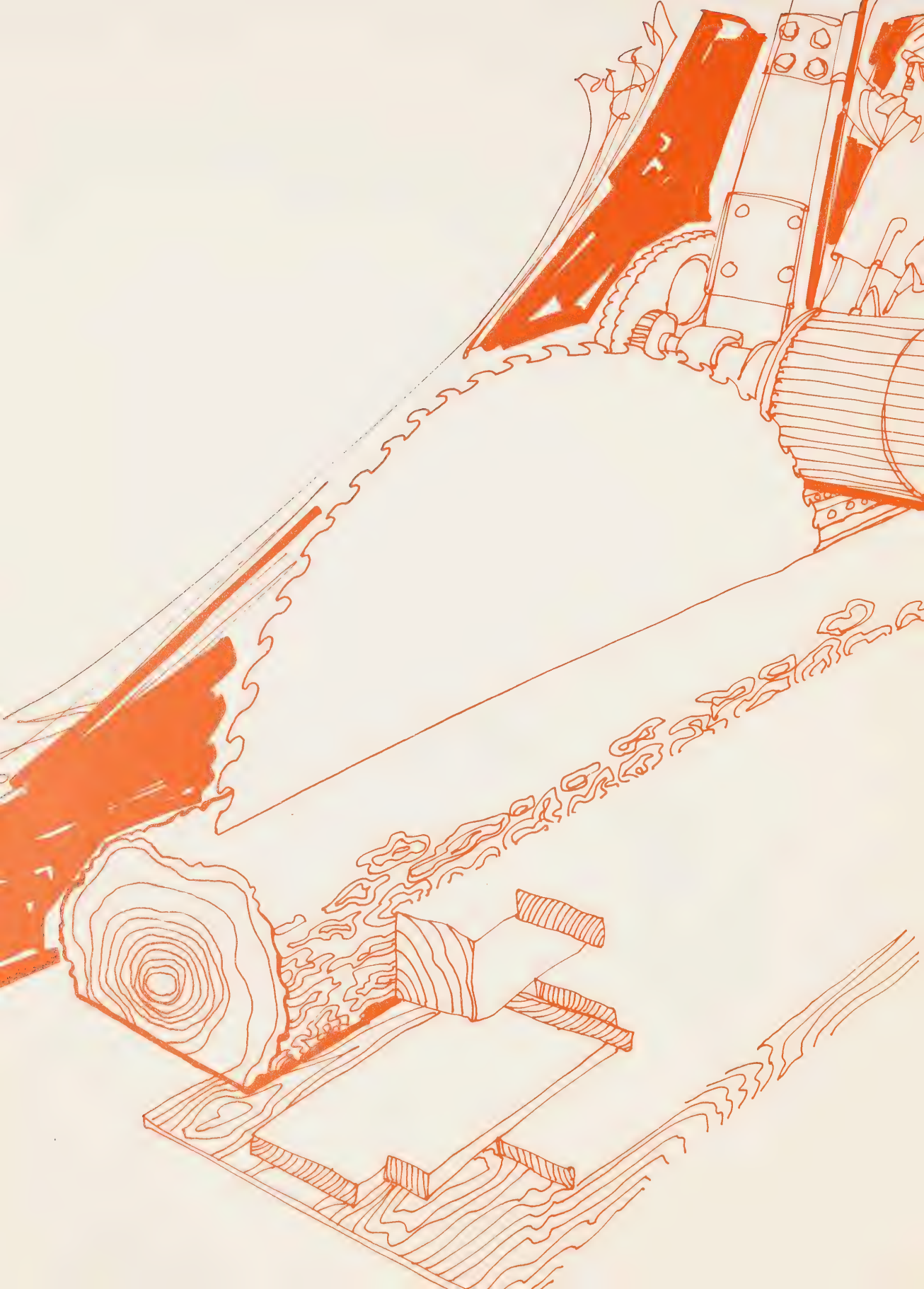
Application forms are available from :

Incentives Division,
Department of Regional Economic Expansion,
Ottawa 4, Ontario.

You are advised to study the Regional Development Incentives Act and Regulations carefully before filling out an application form.

An applicant is asked to provide normal commercial information, similar to that required by a bank or underwriter. Delays in processing can be avoided by supplying complete information. All applications are treated in confidence.





What happens after an application is submitted?

The application is reviewed. If necessary, further information is asked for. As promptly as circumstances permit, a decision is made as to whether an incentive can be offered and, if so, at what rate.

A letter of offer specifies both the amount of the incentive and the date by which construction must begin. This date is a realistic one, determined after discussion with the applicant.

The offer remains open for two months. If the offer is accepted, the Department of Regional Economic Expansion is required to publish the name of the company, estimated capital costs and employment, and the amount of the incentive. Other information remains confidential.

What determines the size of the incentive offered?

A cost-benefit comparison.

The Department tries to determine what, if any, assistance is needed in order that the project can go ahead with a reasonable chance of normal, long-term profitability. This analysis is especially concerned with any extra costs or risks that may be incurred because of the location of the project. It also takes account of other public costs — utilities and community services, and indirect costs for such things as pollution control — that may be involved.

The analysis of public costs includes the amount or present value of any other federal, provincial or municipal assistance to be given. If the amount of such assistance changes after an incentive is offered, the amount of the incentive may be correspondingly amended.

On the other side of the account, the Department looks at the economic benefits of the extra production, including the probability and nature of other development that may follow, and at the social benefits represented by the amount, nature and location of the direct and indirect employment.

From the comparison of costs and benefits, an appropriate level of incentive — between zero and the maximum scale provided for in the legislation — is determined.

When will the incentive be paid?

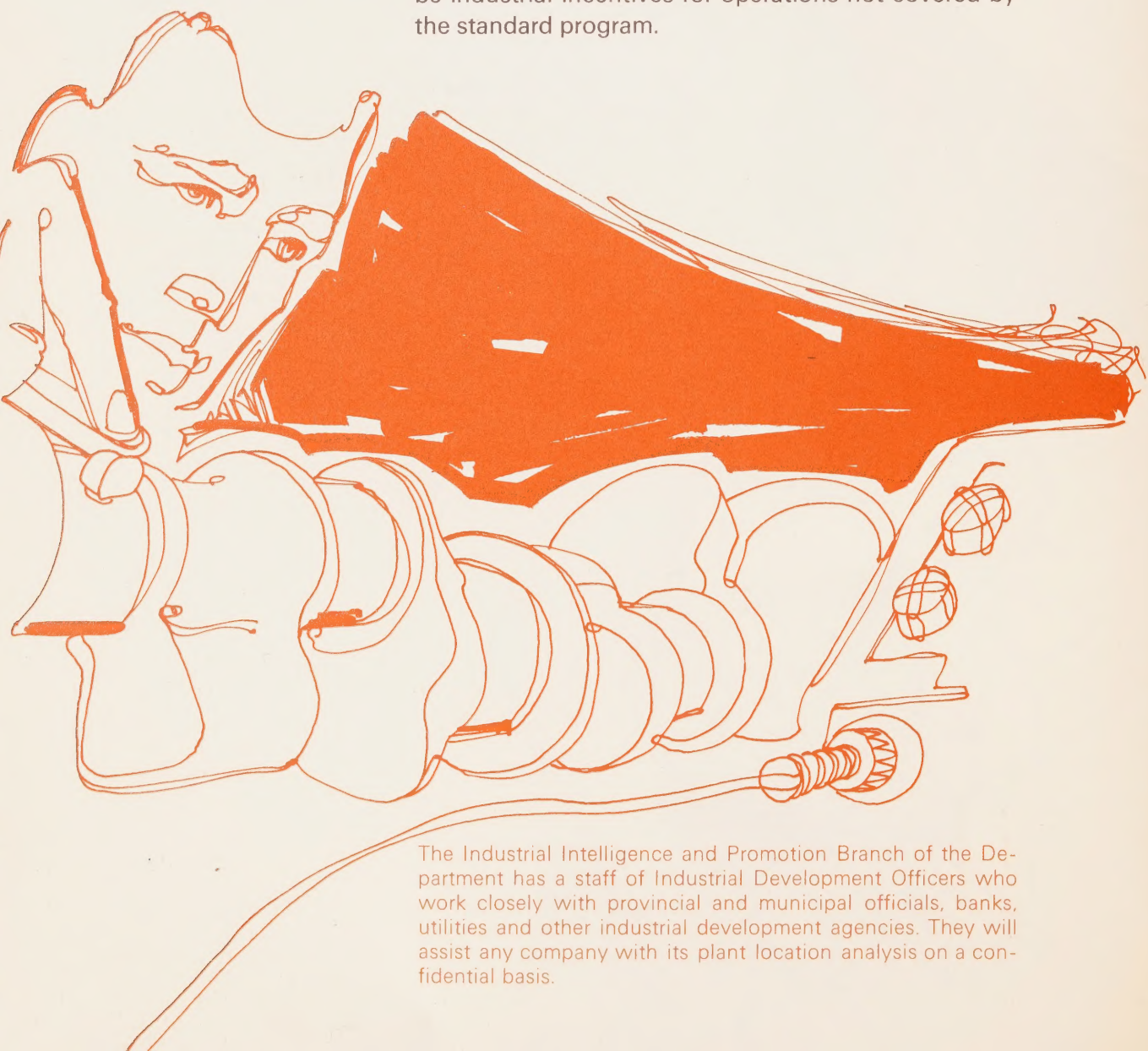
An initial payment up to 80 per cent of the estimated total incentive can be made following at least thirty days of continuous production in the new, expanded or modernized plant. The remaining 20 per cent will be paid within the following 2½ years for a primary incentive or within 3½ years for a combined incentive.

These payments are exempt from income tax. It should be noted, however, that the capital costs of the facility, as they may be depreciated for tax purposes, will not include the amount of the incentive.



Does the Department of Regional Economic Expansion provide any other type of assistance for industry?

Yes. In special areas, there are joint federal-provincial development programs that may include special assistance for developing community infrastructures, for utilities and for the provision and servicing of land for industrial purposes. In some of these areas, there can be industrial incentives for operations not covered by the standard program.



The Industrial Intelligence and Promotion Branch of the Department has a staff of Industrial Development Officers who work closely with provincial and municipal officials, banks, utilities and other industrial development agencies. They will assist any company with its plant location analysis on a confidential basis.

Map also found in
Map Library

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